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# Water Conservation Bond Law Of 1988

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## Official Title and Summary Prepared by the Attorney General

WATER CONSERVATION BOND LAW OF 1988. This act provides for a bond issue of sixty million dollars (\$60,000,000) to provide funds for a local water projects assistance program, water conservation programs, and groundwater recharge facilities.

## Final Vote Cast by the Legislature on AB 1715 (Proposition 82)

Assembly: Ayes 70  
Noes 2

Senate: Ayes 33  
Noes 0

## Analysis by the Legislative Analyst

## Background

The State Department of Water Resources is charged with ensuring that there will be enough water to meet the state's needs. The department also provides assistance for water conservation and groundwater recharge programs, which make better use of existing water supplies.

Since 1984, voters have approved the sale of \$85 million of general obligation bonds for water conservation and groundwater recharge projects. About \$77 million of those funds are expected to remain available by November 1988. The Department of Water Resources, however, is reviewing applications totaling \$215 million for these funds.

Voters also approved a measure in 1960 which, among other things, authorized \$130 million in general obligation bonds for local water supply projects. All of this \$130 million is expected to be committed by November 1988.

**Water Conservation and Groundwater Recharge.** Water conservation projects typically include repair or replacement of leaky water lines and canals, or of inefficient agricultural irrigation systems. Groundwater recharge facilities typically include ditches, pits, streambeds, or wells, into which water is placed and seeps into the groundwater supply. The water is pumped out when needed.

## Proposal

This measure authorizes the state to sell \$60 million of general obligation bonds for low-interest loans to local agencies to construct groundwater recharge and water conservation projects, and for loans to local water agencies for water supply projects and facilities. The measure also would make minor changes in the interest rate charged on loans provided under two previous water conservation and water quality bond acts and in the administration of bond funds under those acts.

General obligation bonds are backed by the state, meaning that the state will use its taxing power to assure that enough money is available to pay off the bonds. Revenues deposited in the state's General Fund would be used to pay the principal and interest costs on these bonds. General Fund revenues come primarily from the state corporate and personal income taxes and the state sales tax.

The Department of Water Resources would use the \$60 million as follows:

1. **Water Conservation and Groundwater Recharge Loans—\$40 Million.** The department would use \$40 million to provide low-interest loans to local agencies for projects to improve water conservation, such as lining agricultural ditches, and for projects to increase the groundwater supply. The interest rate on these loans would be subsidized by an amount equal to one-half of the interest rate the state would pay on the bonds. Thus, the state's interest costs would exceed the interest that could be charged on these loans.

2. **Local Water Project Loans—\$20 Million.** The department would use \$20 million for a program to provide loans to local agencies to develop additional supplies of water. Eligible projects would include, for example, water delivery systems, such as canals, or dams, and reservoirs. The interest rate on these loans would equal the interest rate the state would pay on the bonds.

The measure would limit the amount of loans to \$5 million for any single project. The measure also would require all loans to be approved by the Legislature, and would set the term of the loans at up to 20 years.

3. **Administrative and Legal Costs.** The measure allows up to \$3 million of the bond funds (included in the \$60 million above) to be spent for the department's administrative costs. These costs would be repaid from fees charged to loan recipients. In addition, up to \$900,000 of the bond funds could be spent for legal costs of the Attorney General. The department and the Attorney General also could spend up to \$1.4 million of the loan repayments to cover ongoing administrative and legal costs over the life of the loans.

## Fiscal Effect

**Net Cost of Paying Off the Bonds.** The bonds authorized by this measure probably would be paid off over a period of about 20 years, and would be a responsibility of the state's General Fund. The total cost of the bonds would be about \$118 million, consisting of \$60 million principal and \$58 million for interest.

However, because the loans would be repaid (with a subsidized rate of interest), the *net* state cost would be about \$24 million, or an average of about \$1.2 million per

year. (The net state cost would consist of \$21 million for the interest rate subsidy on the loans, and \$3 million for administrative and legal costs and related interest payments on the bonds.)

This estimate assumes that all of the bonds would be sold at an average interest rate of 7.5 percent, and both the bonds and the loans would be paid off over the same 20-year period.

**Borrowing Costs for Other Bonds.** By increasing the

amount which the state borrows, this measure may cause the state and local governments to pay more interest under other bond programs. These higher interest costs cannot be estimated.

**State Revenues.** The people who buy these bonds are not required to pay state income tax on the interest they earn. Therefore, if California taxpayers buy these bonds instead of making taxable investments, the state would collect less income taxes. This loss of revenue cannot be estimated.

## Text of Proposed Law

This law proposed by Assembly Bill 1715 (Statutes of 1988, Ch. 46), as amended by Assembly Bill 1720 (Statutes of 1988, Ch. 297), is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law amends and adds sections to the Water Code; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

### PROPOSED LAW

SECTION 1. Chapter 4.7 (commencing with Section 12879) is added to Part 6 of Division 6 of the Water Code, to read:

#### CHAPTER 4.7. WATER CONSERVATION BOND LAW OF 1988

##### Article 1. General Provisions

12879. This chapter shall be known and may be cited as the Water Conservation Bond Law of 1988.

12879.1. The Legislature finds and declares as follows:

(a) There is a lack of local water projects in certain areas of the state where the demands of a growing population could exceed water supplies which could threaten the public health and impede economic and social growth.

(b) It is in the interest of the state to provide financial assistance to local agencies for the development of local water resources necessary to meet requirements for domestic, agricultural, and other uses.

(c) The participation of the state and the State Water Resources Development System in the construction and operation of local water projects in those areas is desirable to further the development, control, and conservation of the water resources of the state.

(d) Voluntary, cost-effective capital outlay water conservation programs can help meet growing demand for clean and abundant water supplies.

(e) Recharging groundwater basins is an effective way to maximize the availability of scarce water supplies throughout the state through the efficient management of recharge and extraction activities in groundwater basins, and by reversing the effects of historical overdraft.

12879.2. As used in this chapter, the following terms have the following meanings:

(a) "Committee" means the Water Conservation Finance Committee created pursuant to 12879.9.

(b) "Department" means the Department of Water Resources.

(c) "Fund" means the 1988 Water Conservation Fund created pursuant to 12879.3.

(d) "Local agency" means any city, county, city and county, district, joint powers authority, or other political subdivision of the state involved in water management.

(e) "Eligible project" means any dam, reservoir, or other construction or improvement by a local agency for the diversion, storage, or primary distribution of water, or facilities for groundwater extraction, primarily for domestic, municipal, agricultural, industrial, recreation, fish and wildlife enhancement, flood control, or power production purposes. An eligible project also means any reservoir, pipeline, or other construction or improvement by a local agency for the storage or distribution of reclaimed water for reuse.

(f) "Groundwater recharge facilities" means land and facilities for artificial groundwater recharge through methods which include, but are not limited to, either percolation using basins, pits, ditches, and furrows, modified streambed, flooding, and well injection, or in-lieu recharge. "Groundwater recharge facilities" also means capital outlay expenditures to expand, renovate, or restructure land and facilities already in use for the purpose of groundwater recharge.

Groundwater recharge facilities may include either of the following:

(1) Instream facilities for regulation of water levels, but not regulation of streamflow by storage to accomplish diversion from the waterway.

(2) Conveyance facilities to the recharge site, including devices for flow regulation and measurement of recharge waters.

Any part or all of the project facilities, including land, under the facilities, may consist of separable features, or an appropriate share of multipurpose features of a larger system, or both.

(g) "In-lieu recharge" means accomplishing increased storage of groundwater by providing surface water to a user who relies on

groundwater as a primary supply, in order to accomplish groundwater storage through the direct use of that surface water in lieu of pumping groundwater. In-lieu recharge shall be used rather than continuing pumping while artificially recharging with surface waters. However, bond proceeds shall not be used to purchase surface waters for use in lieu of pumping groundwater.

(h) "Voluntary cost-effective capital outlay water conservation programs" means those feasible capital outlay measures to improve the efficiency of water use through benefits which exceed their costs. The programs include, but are not limited to, lining or piping of ditches; improvements in water distribution system controls such as automated canal control; construction of small reservoirs within distribution systems which conserve water that already has been captured for reuse, and related physical improvements; tailwater pumpback recovery systems to reduce leakage; and capital changes in onfarm irrigation systems which improve irrigation efficiency, such as sprinkler or subsurface drip systems. In each case, the department shall determine that there is a net savings of water as a result of each proposed project and that the project is cost-effective.

##### Article 2. Water Conservation Program

12879.3. (a) The proceeds of bonds issued and sold pursuant to this chapter shall be deposited in the 1988 Water Conservation Fund, which is hereby created. A Local Water Projects Assistance Account shall be established in the fund for the purpose of implementing Section 12879.5, and a Water Conservation and Groundwater Recharge Account shall be established in the fund for the purposes of implementing Section 12879.6.

(b) From time to time, the department may modify existing accounts in the fund, or may establish other accounts in the fund, and in all other bond funds administered by the department, which the department determines are appropriate or necessary for proper administration.

12879.4. (a) The department may make loans to local agencies, upon approval of the Legislature by statute, to aid in the construction of eligible projects and to aid in the funding of voluntary, cost-effective capital outlay water conservation programs and groundwater recharge facilities, and may adopt rules and regulations necessary to carry out this chapter.

Notwithstanding any provision of law, existing rules and regulations adopted by the department pursuant to Chapter 5 (commencing with Section 12880) and Chapter 6.1 (commencing with Section 13450) that are in effect on the effective date of this chapter may be utilized to carry out this chapter. The department may subsequently revise those rules and regulations pursuant to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code as necessary to carry out this chapter.

(b) For the purpose of administering this chapter, the total expenditures of the department through the making of any loans may not exceed 5 percent of the total amount of the bonds authorized to be issued under this chapter. The department shall establish a reasonable schedule of administrative fees for loans, which fees shall be paid by the local agency pursuant to subdivision (c) of Section 12879.4 to reimburse the state for the costs of state administration of this chapter.

Charges incurred by the Attorney General in protecting the interests of the state in the use and repayment of funds under this chapter shall be paid from the proceeds of bonds authorized to be issued under this chapter. These charges shall not be paid from funds allocated for administrative purposes, but shall be treated as a program expense, not to exceed 1.5 percent of the total amount of the bonds authorized to be issued under this chapter.

(c) Any contract entered into pursuant to this section may include such provisions as may be determined by the department, provided that any contract concerning an eligible project shall include, in substance, all of the following provisions:

(1) A finding by the department that the local agency has the ability to repay the loan, that the eligible project is economically justified, and that the eligible project is feasible from an engineering and geologic standpoint.

(2) An estimate of the reasonable cost and benefit of the eligible

## Argument in Favor of Proposition 82

Proposition 82 continues California's commitment to the wise and efficient use of our limited water supplies.

Proposition 82 has two goals.

First, it provides \$20 million in loans for local government agencies to build water supply projects needed to provide water to their residents.

California's population continues to grow. Loans made available from Proposition 82 will enable local agencies to satisfy the demands created by that growth. New local water storage projects also could help ease the threat of future drought-related water supply shortages.

Second, Proposition 82 provides \$40 million to enable communities to obtain loans for voluntary, cost-effective water conservation programs and groundwater recharge facilities. Water conservation helps local agencies to save water now being lost due to leaking pipes and unlined ditches and canals. This means more water for customers at a lower cost as compared to the costs of building new facilities to make up for the lost supply.

Another way to use our water more efficiently is through the refilling—or recharge—of our underground water supply. Many areas of California are using groundwater faster than nature can replenish it. Groundwater recharge has been practiced here for 90 years. It is a proven method of placing surplus surface water from extremely wet years into available storage space underground so that it can be used in dry years. This underground space is available in the great Central Valley and in valley areas in coastal and southern California.

Moreover, as storing surface water behind dams becomes more expensive, storing water underground where it does not evaporate becomes more practical, efficient,

and economical. Storing water underground in coastal areas also keeps ocean salt water from seeping into drinking water supplies, thereby ensuring better quality drinking water.

The State Department of Water Resources currently has 103 applications from local agencies on file representing \$205 million worth of water conservation and groundwater recharge projects. Over half of these projects have \$3 in benefits for every \$1 in cost, making them a good investment for all Californians.

Proposition 82 makes good sense for California. Conserving more water could delay the need to build expensive new dams on our rivers. Conserving more water helps provide a water supply adequate to meet the demands of a rapidly growing population.

Stretching our limited water supply will also ensure the continued vitality of our agriculture and industry. Most importantly, however, a clean and abundant supply of water is necessary to preserve and protect public health.

Californians previously have shown overwhelming support for using general obligation bonds for financing local water projects, water conservation programs, and groundwater recharge facilities.

We respectfully urge your support of Proposition 82. Our water resources are too precious to squander away.

**JIM COSTA**

*Member of the Assembly, 30th District  
Chairman, Assembly Water, Parks and Wildlife Com*

**HENRY J. MELLO**

*State Senator, 17th District*

**NORMAN WATERS**

*Member of the Assembly, 7th District  
Chairman, Assembly Agriculture Committee*

## Rebuttal to Argument in Favor of Proposition 82

The supporters of Proposition 82 seem convinced that government action is the only way to solve water shortages in California. As we show in our argument, it is often government actions that contribute to shortages in the first place.

Underground water supplies could better be conserved by assigning ownership rights to the groundwater. Currently these vital resources are used in common, so that no individual has a stake in seeing this water used more sparingly. This is similar to the overgrazing of cattle on government-owned pasture land in the Rocky Mountain states.

We admit that this measure is popular. But we also urge you to note that there are so many bond issues on this ballot that the whole concept is getting ridiculous. With each election, the number grows and grows until your ballot pamphlet looks like a phone book.

Democratic and Republican politicians are never happier than when they are spending the taxpayers' money.

With bond financing, these legislators can show their support for popular projects without immediately raising taxes to pay for them. Taxpayers in the future, though, will have to pay hefty interest charges to the bondholders. Is this a good way to run our state government?

If you vote NO on Proposition 82, it won't mean that you favor water shortages. It means that you favor accountability from our elected officials, desire to keep California out of debt, and desire to look into free market alternatives to government programs.

Vote NO on Proposition 82.

**JERRY R. DOUGLAS**

*Director, Topanga-Las Virgenes Resource  
Conservation District*

**TED BROWN**

*Chairman, Libertarian Party of California  
Candidate for U.S. Congress, 22nd District*

**KIM J. GOLDSWORTHY**

*Southern Vice Chairman, Libertarian Party of California  
Candidate for U.S. Congress, 30th District*

## Argument Against Proposition 82

Proposition 82 asks for \$60 million in bonds for local water projects, water conservation programs, and ground-water recharge facilities. We urge you to vote NO.

Government water policies have given us a potential water shortage. Not flushing the toilet and not watering our driveways is no answer. As individuals we should not waste water, but it is worth noting that 85% of the water used here in California is for agriculture, our state's largest industry.

The main reason for the shortage is that low prices encourage waste. One of the worse features of state water policy is uniform water charges over given areas. This leads to residential customers, who are low water users, subsidizing agricultural and commercial customers, who use a lot of water. A good example is the difference in water prices paid by the Imperial Irrigation District (agricultural), which pays \$10 an acre-foot, and Los Angeles' Metropolitan Water District (residential), which pays \$250 an acre-foot for the same Colorado River water.

If big water users had to pay the real cost of their water, prices would fluctuate according to supply and lead to conservation as well, as cost effectiveness would emerge to help the long-term supply and maintenance needs of our most vital resource. This would be in stark contrast to California's Central Valley, where users pay only 9% of the actual cost of the water they use and thus keep submarginal dry land in production.

State law forbids the sale or reallocation of agricultural

water. We favor allowing farmers to sell their water at market rates. Otherwise, they have to use all of it themselves, thus causing waste now and shortages later.

California's water consumers would benefit greatly by a free market in water. The end of price controls would lower prices for individual residential users while raising them to market values for big agricultural and commercial customers.

Lower rates can also result from the private operation of water systems. For example, two wells privately drilled in Irving, Texas, have been greatly economical for the users there. In a different use of the private sector, San Diego's County Water Authority has agreed to buy some of its water from a private supplier in Colorado.

By rejecting this bond measure, we can not only keep from going into debt, but we can look seriously at lowering our individual water rates and establishing a fair, free market in water in California. Vote NO on Proposition 82.

**JERRY R. DOUGLAS**

*Director, Topanga-Las Virgenes Resource Conservation District*

**TED BROWN**

*Chairman, Libertarian Party of California  
Candidate for U.S. Congress, 22nd District*

**KIM J. GOLDSWORTHY**

*Southern Vice Chairman, Libertarian Party of California  
Candidate for U.S. Congress, 30th District*

## Rebuttal to Argument Against Proposition 82

The argument against Proposition 82 is confusing, inaccurate and misdirected.

Proposition 82 provides loans to cities, counties, water districts and other local governmental agencies so that (1) leaking pipes, ditches and canals can be repaired, (2) floodwaters can be captured and stored underground for use in drought years, and (3) local areas can build small water storage facilities to meet the needs of a growing population.

California's vast system of waterworks provides ample water supplies to cities and farms even in dry years. The issue is whether we are delivering water to our farms and residents in an efficient and cost-effective manner.

The opponents argue about the broader implications of who gets how much water and at what cost—not about the merits of Proposition 82.

Government water policies have not given us a potential water shortage. Our population continues to grow at a record pace. There are six million more people in California today than 10 years ago. That means we are using more water.

Water conservation stretches our current water supply to serve more people. Water conservation and ground-water recharge are the most environmentally sound, cost-effective means of addressing our short-term water needs.

Proposition 82 would enable local governments to make much-needed improvements to our water delivery system. Proposition 82 would fund proven programs—programs which California voters have supported for years.

Don't be confused or misled by the argument against this measure. Please join us in voting "YES" on Proposition 82.

**JIM COSTA**

*Member of the Assembly, 30th District  
Chairman, Assembly Water, Parks and Wildlife Committee*

**HENRY J. MELLO**

*State Senator, 17th District*

**NORMAN WATERS**

*Member of the Assembly, 7th District  
Chairman, Assembly Agriculture Committee*

authorized and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized to be issued be sold at any time.

14034. There shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds maturing each year, and it is hereby made the duty of all officers charged by law with any duty in regard to the collection of the revenue, to do and perform each and every act which shall be necessary to collect the additional sum.

14035. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund in the State Treasury, for the purposes of this chapter, an amount that will equal the total of the following:

(a) The sum annually necessary to pay the principal of, and interest on, bonds issued and sold pursuant to this chapter, as the principal and interest become due and payable.

(b) The sum which is necessary to carry out the provisions of Section 14036, appropriated without regard to fiscal years.

14036. For the purposes of carrying out this chapter, the Director of Finance may, by written order, authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of carrying out this chapter. Any amounts withdrawn shall be deposited in the fund to be allocated by the board in accordance with this chapter. Any money made available under this section shall be returned by the board to the General Fund, plus the interest that the amounts would have earned in the Pooled Money

Investment Account from money received from the sale of bonds for the purpose of carrying out this chapter.

14037. All money deposited in the fund which is derived from premium and accrued interest on bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

14038. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, disbursement of these proceeds is not subject to the limitations imposed by that article.

14039. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 2 of Title 2 of the Government Code. Approval by the electors of the state for the issuance of these bonds shall include the approval of any bonds issued to refund any bonds originally issued or previously issued refunding bonds.

14040. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out the provisions of this chapter. The amount of the request shall not exceed the amount of the unsold bonds which the committee has by resolution authorized to be sold for the purpose of carrying out this chapter. The board shall execute such documents as are required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

## Proposition 82: Text of Proposed Law

Continued from page 21

project, program, or facility.

(3) An agreement by the local agency to proceed expeditiously with, and complete, the eligible project.

(4) A provision that there shall be no moratorium or deferment on payments of principal or interest.

(5) Local agencies seeking a loan shall demonstrate, to the satisfaction of the department, that an adequate opportunity for public participation regarding the loan has been provided.

(6) Any election held with respect to the loan shall include the entire local agency except where the agency proposes to accept the loan on behalf of a specified portion, or portions, of the agency, in which case the election shall be held in that portion or portions of the agency only.

(7) Annual principal and interest payments shall commence not later than one year after completion of any project and all loans shall be fully amortized not later than 50 years after project completion.

(8) The recipient of a loan shall establish a dedicated source of revenue for repayment of the loan.

(9) Any loans made pursuant to this chapter may be for a period of up to 20 years. The interest rate for the loans made for projects to be funded pursuant to Section 12879.5 shall be set at a rate equal to the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. The interest rate for loans made for projects to be funded pursuant to Section 12879.6 shall be set at a rate equal to 50 percent of the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. When the interest rate so determined is not a multiple of one-tenth of 1 percent, the interest rate shall be set at the next higher multiple of one-tenth of 1 percent. The interest rate set for each contract shall be applied throughout the repayment period of the contract. There shall be a level annual repayment of principal and interest on the loans. The amount of the principal shall include the administrative fee described in subdivision (b).

(d) All loans made pursuant to this chapter shall be subject to the approval of the Legislature by statute.

(e) Applications for loans or financial participation by the state under this chapter shall be made to the department in the form and with the supporting material as may be prescribed by the department.

(f) All money repaid to the state pursuant to any contract executed under this chapter, or under Section 13999.11, shall be deposited in the General Fund as reimbursement for payment of principal and interest on bonds authorized to be issued under this chapter or Chapter 15 (commencing with Section 13999) that have been paid from the General Fund.

(g) As approved annually by the Legislature in the Budget Act, the department, notwithstanding subdivision (b), may expend money repaid to the state pursuant to any contract executed pursuant to this chapter as necessary for the administration of contracts entered into by the department pursuant to this chapter. However, the expenditures may not in any year exceed 1.5 percent of the amount repaid to the state in that year. Charges incurred by the Attorney General in protecting the state's interests in the use and repayment of funds pursuant to this chapter may be paid by the department from these funds. However, the charges may not exceed 0.5 percent of the amount repaid to the state in that year. Any of the foregoing sums approved by the Legislature in the

Budget Act but unencumbered at the end of any year shall automatically revert to the General Fund.

12879.5. (a) The sum of twenty million dollars (\$20,000,000) of the money in the fund shall be deposited in the Local Water Projects Assistance Account and shall be available for loans to local agencies to aid in the construction of eligible projects.

(b) No eligible project may receive more than five million dollars (\$5,000,000) in loans from the department.

(c) In the administration of this section, the department and the California Water Commission shall give preference to projects involving the development of new basic water supplies which may include the enlargement of existing dams and reservoirs, and for projects that will remedy existing water supply problems. The department and California Water Commission shall set priority for loans pursuant to this section on the basis of the cost effectiveness of the proposed project with the most cost-effective projects receiving highest priority.

(d) If the water supply function of a dam and reservoir facility is operationally limited or eliminated for dam safety purposes, pursuant to Part 1 (commencing with Section 6000) of Division 3, the department and the California Water Commission may give consideration to projects which would rehabilitate the dam and reservoir for water supply purposes. The rehabilitation of facilities may include comparable replacement facilities.

(e) A copy of each application for a loan pursuant to this section shall be transmitted by the department to the Department of Fish and Game, the Department of Parks and Recreation, and the State Water Resources Control Board. A report on each application shall be prepared by the department and submitted to the Legislature, together with the comments of those agencies to which the application was transmitted. In the report, the department shall make findings as to the nature and extent of the statewide interest in the project, the urgency of the need, and the engineering feasibility, economic justification, and financial feasibility of the project.

(f) Not later than January 31, 1990, and each year thereafter, the department shall submit to the Legislature an annual report on all loans made pursuant to this chapter. The report shall cover loans made by the department during the previous calendar year.

(g) The department shall not make loans pursuant to this section for otherwise eligible projects whose benefits are more than 50 percent derived from hydroelectric generation, as determined by the department.

(h) The department may make loans to local agencies, at the interest rates authorized pursuant to this chapter and pursuant to any terms and conditions as may be determined necessary by the department, for the purposes of financing feasibility studies of projects potentially eligible for funding pursuant to this section. No single potential project shall be eligible to receive more than five hundred thousand dollars (\$500,000), and not more than 10 percent of the total amount of bonds authorized to be expended for purposes of this section may be expended for those purposes.

12879.6. (a) The sum of forty million dollars (\$40,000,000) of money in the fund shall be deposited in the Water Conservation and Groundwater Recharge Account and shall be available for appropriation by the Legislature for loans to local agencies to aid in the acquisition and construction of voluntary, cost-effective capital outlay water conservation programs and groundwater recharge facilities.



(b) No eligible project may receive more than five million dollars (\$5,000,000) in loans from the department.

(c) The department shall set priority for loans under this section for voluntary, cost-effective capital outlay water conservation programs on the basis of the cost effectiveness of the proposed project, with the most cost-effective projects receiving the highest priority.

The department shall set priority for loans under this section for adwater recharge facilities for projects in overdrafted groundwater basins and those projects in critical need, for projects whose feasibility studies show the greatest economic justification and the greatest engineering and hydrogeologic feasibility, as determined by the department, and for projects located in areas which have existing water management programs.

(e) The department may make loans to local agencies, at the interest rates authorized pursuant to this chapter and under any terms and conditions as may be determined necessary by the department, for the purposes of financing feasibility studies of projects potentially eligible for funding pursuant to this section. No single potential project shall be eligible to receive more than one hundred thousand dollars (\$100,000), and not more than 3 percent of the total amount of bonds authorized to be expended for the purposes of this section may be expended for these purposes.

### Article 3. Fiscal Provisions

12879.7. Bonds in the total amount of sixty million dollars (\$60,000,000), exclusive of refunding bonds issued pursuant to Section 12879.15, or so much thereof as is necessary, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this chapter and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code. All bonds herein authorized, which have been duly sold and delivered as herein provided, shall constitute valid and legally binding general obligations of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal and interest thereof.

12879.8. The bonds authorized by this chapter shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code), and all of the provisions of that law apply to the bonds and to this chapter and are hereby incorporated in this chapter as though set forth in full in this chapter.

12879.9. (a) Solely for the purpose of authorizing the issuance and pursuant to the State General Obligation Bond Law, of the bonds authorized by this chapter, the Water Conservation Finance Committee is hereby created. For purposes of this chapter, the Water Conservation Finance Committee is "the committee" as that term is used in the State General Obligation Bond Law. The committee consists of the Governor, the Controller, the Treasurer, the Director of Finance, the Director of Water Resources, and the Chairperson of the California Water Commission, or their designated representatives. A majority of the committee may act for the committee.

(b) For purposes of the State General Obligation Bond Law, the Department of Water Resources is designated the "board."

12879.10. The committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this chapter in order to carry out the actions specified in Sections 12879.5 and 12879.6, and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be authorized and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized to be issued be sold at any one time.

12879.11. There shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds maturing each year, and all officers required by law to perform any duty in regard to the collection of state revenues shall collect that additional sum.

12879.12. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund in the State Treasury, for the purposes of this chapter, an amount that will equal the total of the following:

(a) The sum annually necessary to pay the principal of, and interest on, bonds issued and sold pursuant to this chapter, as the principal and interest become due and payable.

(b) The sum which is necessary to carry out the provisions of Section 12879.13, appropriated without regard to fiscal years.

12879.13. For the purposes of carrying out this chapter, the Director of Finance may, by executive order, authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of carrying out this chapter. Any amounts drawn shall be deposited in the fund to be allocated by the board in accordance with this chapter. Any money made available under this section to the board from money received from the sale of bonds for the purpose of carrying out this chapter shall be returned to the General Fund plus the interest that the amount would have earned in the Pooled Money Investment Account.

12879.14. All money deposited in the fund which is derived from premium and accrued interest on bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

12879.15. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 2 of Title 2 of the Government Code. Approval by the electors of the state for the issuance of these bonds shall include the approval of any bonds issued to refund any bonds originally issued or previously issued refunding bonds.

12879.16. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out this chapter. The amount of the request shall not exceed the amount of the unsold bonds which the committee has by resolution authorized to be sold for the purpose of carrying out this chapter. The board shall execute such documents as are required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

12879.17. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.

SEC. 2. Section 13459 of the Water Code is amended to read:

13459. (a) The sum of seventy-five million dollars (\$75,000,000) of the money in the fund shall be deposited in the Agricultural Drainage Water Account is appropriated for expenditure in the 1986-87 fiscal year for loans to agencies to aid in the construction of drainage water management units for the treatment, storage, or disposal of agricultural drainage water and the purposes set forth in this section. The board may loan an agency up to 100 percent of the total eligible costs of design and construction of an eligible project. Loans made in the 1986-87 fiscal year may not be authorized sooner than 30 days after notification in writing of the necessity therefor to the chairperson of the committee in each house which considers appropriations, to the policy committee of the Assembly as designated by the Speaker of the Assembly and the policy committee of the Senate designated by the Senate Rules Committee, and the Chairperson of the Joint Legislative Budget Committee.

(b) Any contract for an eligible project entered into pursuant to this section may include such provisions as determined by the board and shall include, in substance, all of the following provisions:

(1) An estimate of the reasonable cost of the eligible project.

(2) An agreement by the agency to proceed expeditiously with, and complete, the eligible project; commence operation of the containment structures or treatment works upon completion and to properly operate and maintain the works in accordance with applicable provisions of law; provide for payment of the agency's share of the cost of the project, including principal and interest on any state loan made pursuant to this section; and, if appropriate, apply for and make reasonable efforts to secure federal assistance for the state-assisted project.

(c) All loans pursuant to this section are subject to all of the following provisions:

(1) Agencies seeking a loan shall demonstrate, to the satisfaction of the board, that an adequate opportunity for public participation regarding the loan has been provided.

(2) Any election held with respect to the loan shall include the entire agency except where the agency proposes to accept the loan on behalf of a specified portion, or portions, of the agency, in which case the referendum shall be held in that portion or portions of the agency only.

(3) Loan contracts may not provide a moratorium on payment of principal or interest.

(4) Loans shall be for a period of up to 20 years with an interest rate set annually by the board at 50 percent of the interest rate computed by the true interest cost method on bonds most recently issued pursuant to this chapter. The interest rate for the loans shall be set at a rate equal to 50 percent of the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. When the interest rate so determined is not a multiple of one-tenth of 1 percent, the interest rate shall be set at the next higher multiple of one-tenth of 1 percent. The interest rate set for each contract shall be applied throughout the contract's repayment period. There shall be a level annual repayment of principal and interest on loans.

(5) The board in considering eligible projects shall give preference to technologies which treat drainage water where the board finds that the technology is readily available and economically feasible for the agency.

(6) No single project may receive more than twenty million dollars (\$20,000,000) in loan proceeds from the board.

(d) The board may make loans to local agencies, at the interest rates authorized under this section and under any terms and conditions as may be determined necessary by the board, for purposes of financing feasibility studies of projects potentially eligible for funding under this section. No single potential project shall be eligible to receive more than one hundred thousand dollars (\$100,000), and not more than 3 percent

of the total amount of bonds authorized to be expended for purposes of this section may be expended for this purpose. A loan for a feasibility study shall not decrease the maximum amount of any other loan which may be made under this section.

SEC. 3. Section 13999.3 of the Water Code is amended to read:

13999.3. (a) There is in the State Treasury the 1984 State Clean Water Bond Fund, which fund is hereby created. There shall be established in the fund a Clean Water Construction Grant Account for the purpose of implementing Section 13999.8, a Small Communities Assistance Account for the purpose of implementing Section 13999.9, a Water Reclamation Account for the purpose of implementing Section 13999.10 and a Water Conservation Account for the purpose of implementing Section 13999.11.

(b) From time to time, the board may modify existing accounts in the fund, or may establish other accounts in the fund, and in all other bond funds administered by the board, which the board determines are appropriate or necessary for proper administration.

SEC. 4. Section 13999.5 of the Water Code is amended to read:

13999.5. (a) The committee is hereby authorized and empowered to create a debt or debts, liability or liabilities, of the State of California, in the aggregate amount of three hundred twenty-five million dollars (\$325,000,000), in the manner provided in this chapter. The debt or debts, liability or liabilities, shall be created for the purpose of providing the fund to be used for the object and work specified in this section and in Sections 13999.6, 13999.8, 13999.9, 13999.10, 13999.11, and 13999.14.

(b) The board is authorized to enter into contracts with municipalities having authority to construct, operate, and maintain treatment works and reclamation projects, for grants and loans to the municipalities to aid in the construction of eligible projects and eligible water reclamation projects and may adopt rules and regulations necessary to carry out the provisions of this chapter.

(c) As approved by the Legislature annually in the Budget Act, the board may, by contract or otherwise, undertake plans, surveys, research, development, and studies necessary, convenient, or desirable to carry out the purposes of this division, and may prepare recommendations with regard thereto, including the preparation of comprehensive statewide or areawide studies and reports on the collection, treatment, and disposal of waste under a comprehensive cooperative plan.

(d) As approved by the Legislature annually in the Budget Act, the board may expend bond funds necessary for administration of this chapter.

(e) Not more than 5 percent of the money deposited in the fund total amount of the bonds authorized to be issued under this chapter may be used for purposes of subdivisions (c) and (d).

(f) As approved by the Legislature annually in the Budget Act, the department may direct grants and loans to any public agency or, by contract or otherwise, undertake plans, surveys, research, development, and studies necessary, convenient, or desirable to carry out voluntary, cost-effective capital outlay water conservation programs.

(g) The board may expend funds necessary to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code.

SEC. 5. Section 13999.10 of the Water Code is amended to read:

13999.10. (a) The sum of twenty-five million dollars (\$25,000,000) of

the money in the fund shall be deposited in the Water Reclamation Account and is appropriated for loans to municipalities for eligible water reclamation projects which will provide water for beneficial uses.

The board may loan a municipality up to 100 percent of the total eligible costs of design and construction of a reclamation project.

(b) Any contract for an eligible water reclamation project entered into pursuant to this section may include such provisions as determined by the board and shall include both of the following provisions:

(1) An estimate of the reasonable cost of the eligible water reclamation project.

(2) An agreement by the municipality to proceed expeditiously with, and complete, the eligible water reclamation project; commence operation of the project in accordance with applicable provisions of law; provide for payment of the municipality's share of the cost of the project, including principal and interest on any state loan made pursuant to this section; and, if appropriate, apply for and make reasonable efforts to secure federal assistance, other than that available pursuant to the federal Clean Water Act, for the state-assisted project.

(c) Loan contracts may not provide for a moratorium on payments of principal or interest.

(d) (1) Any loans made from the Water Reclamation Account shall be for a period of up to 25 years with an interest rate set annually by the board at 50 percent of the average interest rate paid by the state on general obligation bonds in the calendar year immediately preceding the year in which the loan agreement is executed. All principal and interest from loans shall be returned to the Water Reclamation Account for new loans. The interest rate for the loans shall be set at a rate equal to 50 percent of the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. When the interest rate so determined is not a multiple of one-tenth of 1 percent, the interest rate shall be set at the next higher multiple of one-tenth of 1 percent.

(2) All principal and interest from loans shall be returned to the Water Reclamation Account for new loans.

(e) Funds available under this section may be used for loans pursuant to subdivisions (f), (g), and (h) of Section 13999.8 if the Clean Water Construction Grant Account is depleted. All principal and interest on any such loans shall be repaid to the Water Reclamation Account.

(f) No single project may receive more than ten million dollars (\$10,000,000) from the board.

SEC. 6. Section 13999.17 is added to the Water Code, to read:

13999.17. (a) Notwithstanding any other provision of this chapter and to the extent permitted by federal and state law, the money in the fund may be used to rebate to the federal government all arbitrage profits required by the Federal Tax Reform Act of 1986 or amendment thereof or supplement thereto. To the extent that the money in the fund may not be used for that purpose due to restraints of federal or state law, any rebates required shall be paid from the General Fund or from other sources as required by the Legislature.

(b) Notwithstanding any other provision of law, rule, or regulation, the board may enter into contracts, or procure those services and equipment, which may be necessary to ensure prompt and complete compliance with any provisions relating to the fund imposed by either the Federal Tax Reform Act of 1986 or the federal act.

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Clean Water Act.

### Article 2. Clean Water and Water Reclamation Bond Program

14055. (a) The proceeds of bonds issued and sold pursuant to this chapter shall be deposited in the State Treasury to the credit of the 1988 Clean Water and Water Reclamation Fund, which is hereby created. There shall be established in the fund a Small Communities Grant Account for the purpose of implementing Section 14056 and a Water Reclamation Account for the purpose of implementing Section 14058.

(b) From time to time, the board may modify existing accounts in the fund, or may establish other accounts in the fund, and in all other bond funds administered by the board, which the board determines are appropriate or necessary for proper administration.

14056. (a) The sum of twenty-five million dollars (\$25,000,000) of the money in the fund shall be deposited in the Small Communities Grant Account and, notwithstanding Section 13340 of the Government Code, is hereby continuously appropriated for state grants to small communities for construction of treatment works eligible for assistance under Title VI of the federal act.

(b) The board may enter into grant contracts in accordance with this section with qualifying small communities having authority to construct, operate, and maintain treatment works to aid in the construction of eligible projects.

(c) The board may make grants to small communities in an amount on a sliding scale, based on a community's ability to pay, not to exceed 97½ percent of the total estimated cost of pollution studies, planning, design, and construction determined in accordance with applicable state laws and regulations. Total state assistance under this section shall not exceed two million dollars (\$2,000,000) for any single eligible project.

(d) Any contract entered into pursuant to this section may include such provisions as may be determined by the board, provided that any contract shall include the following provisions:

(1) An estimate of the reasonable cost of the eligible project.

(2) An agreement by the small community to proceed expeditiously with, and complete, the proposed eligible project, commence operation of the treatment works upon completion, and to properly operate and maintain the works in accordance with applicable provisions of law.

(e) Small communities eligible for a state grant may also apply for a loan from the State Water Pollution Control Revolving Fund for costs not covered by the grant.

14057. The sum of ten million dollars (\$10,000,000) of the money in the fund shall be available for transfer by the board to the Clean Water Bond Guarantee Fund and shall be available to the board to guarantee local agency bond issues pursuant to Article 2.5 (commencing with Section 13425) of Chapter 6. After January 1, 1990, the board may transfer any funds in the Clean Water Bond Guarantee Fund which have not been committed to guaranteeing local agency bond issues to the 1988 Clean Water and Water Reclamation Fund.

14058. (a) The sum of thirty million dollars (\$30,000,000) of the money in the fund shall be deposited in the Water Reclamation Account and, notwithstanding Section 13340 of the Government Code, is hereby continuously appropriated to the board for the purposes of this section.

(b) The board may enter into contracts with local public agencies having authority to construct, operate, and maintain water reclamation projects, for loans to aid in the design and construction of eligible water reclamation projects. The board may loan up to 100 percent of the eligible cost of design and construction of an eligible reclamation project.

(c) Any contract for an eligible water reclamation project entered into pursuant to this section may include such provisions as determined